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STATE PASS DEPT OF AGRICULTURE
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TAGS: [EFIN](#) [PGOV](#) [EIND](#) [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [PA](#)
SUBJECT: AG SECTOR UNCERTAINTY BREEDS PESSIMISM

REF: ASUNCION 722

Classified By: CDA, a.i. Michael J. Fitzpatrick; reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Major Paraguayan soy producers are skeptical of President Lugo's economic plans, particularly agriculture policy. Recent declines of 30 to 40 percent in commodity prices are a serious but manageable concern. The government's intention to tax production, however, generates a strong reaction from soy producers, who feel they will be targets of an "ideological" tax plan. They expect soybean cultivation to remain stable despite economic uncertainty, but many may reduce investment. The grain traders shared these concerns, and tightened their credit terms to reflect higher risk rate spreads. The Agriculture Minister feels caught between the private sector and his President. Given rising levels of uncertainty and risk in the agricultural sector -- the most important in Paraguay's economy -- the private investment necessary to boost Lugo's poverty reduction and employment priorities is increasingly unlikely to materialize at the expected levels. The sector's 2009 outlook is less than positive. END SUMMARY.

UNCERTAINTY REIGNS: THE PRODUCERS' VIEWS

¶2. (C) Medium-and-large scale soy producers in the Department of Itaipua, Alto Parana, and San Pedro are skeptical about President Lugo's ambiguous economic plans, and particularly his government's agriculture policy. For them, the main issue is security from land invasions. In a series of recent conversation with Econoff, they described social groups that act with impunity under a "self-righteous, I am entitled" ideology, generating violence and disrupting production. They complained about the lack of an official declaration from President Lugo protecting their rights to private property, and indicated that the silence exacerbates a negative perception as to what the new administration's "real" policies are.

¶3. (C) Similar views were echoed by Claudia Ruser, President of the Soy Producers Association (APS), who told Ambassador in mid-November that the security situation in the Department of San Pedro is unbearable; "President Lugo needs to speak-up and condemn the private property attacks". (NOTE: The Departments of Alto Parana and Itaipua represent more than two-thirds of Paraguay's soy production. The number of reported land invasions in those departments, however, represents only about 30 percent of the total. The epicenter of land invasions is the Department of San Pedro. END NOTE.) Producers also felt attacked by President Lugo's September speech at UNGA which lumped soy producers in with terrorists for their use of "agrotoxins." (NOTE: Interior Minister Filizzola has been a welcome surprise to many agriculture producers, given his repeated and strong statements in

support of private property. However, President Lugo, in this as in many other issues, has not been very vocal one way or another. This is troubling for those in a culture steeped in a tradition of being dictated to by the Chief Executive. END NOTE.)

¶4. (SBU) Producers described recent 30 to 40 percent declines in commodity prices as a serious but manageable concern. The government's intention to tax production, however, generates a strong reaction from soy producers, who feel they will be targets of an "ideological" tax plan that shifts an inequitable burden to the most productive sector of Paraguay's economy. They argued that as international economic conditions deteriorate, they will lose operational and financial flexibility, which will be exacerbated by a production tax. They emphasized the tightening of terms for working capital financing as a critical constraint for medium-term growth.

¶5. (SBU) Noting a volatile environment in which violence could escalate and conditions deteriorate, agricultural producers in Alto Parana, Itaipua, and San Pedro project a small decline in soybean production volumes. (NOTE: In 2007, soybean cultivation totaled 2,640,000 hectares, and production volumes increased 79.4 percent to 6.5 million tons. END NOTE.) Producers complained about increasing investment risks, and highlighted plans to reduce the inventory of inputs, postpone purchases of new equipment, and halt infrastructure upgrades.

DIFFICULT BUT MANAGEABLE: THE GRAIN TRADERS' VIEWS

¶6. (C) The two most important grain traders in Paraguay, U.S.-based Cargill and ADM, report that conditions on the production side continue to deteriorate but that risks are manageable for now. They cautioned about increasing operational risks in San Pedro, and expressed serious concerns about a perceived lack of state support to producers, especially to the Brazilian-Paraguayan ("Brasiguayo") producers (reftel).

¶7. (SBU) Contrary to what some producers claim, the companies have not stopped offering short-term financing. Cargill and ADM tightened their terms to reflect increasing interest rate risk-spreads, and decided to limit the offer of credit to existing clients. According to the companies, some local banks refused to extend financing to producers because of higher perceived risks and tightening credit requirements.

¶8. (SBU) The companies said they will continue with their current investment plans, though with increased monitoring to continuously reassess volatile market conditions. Cargill is investing over 100 million USD in a grain crushing port, and ADM will invest roughly USD 20 million in a fertilizer plant.

WORRIED ABOUT HANGING ON: AG MINISTER VIEWS

¶9. (C) Agriculture Minister Candido Vera-Berajano serves as Lugo's minister of agriculture because he is a long-time friend of the president; however, he said to the Ambassador in mid-October that he is not sure how much longer he can withstand the pressures of the office. Though Vera-Berajano did not directly address the issue of land invasions and violence, he expressed concern about radical actors surrounding the President. He worried about Venezuelan President Hugo Chavez' presence in rural areas, and predicted an increase in illicit activity where the Paraguayan state has a weak presence. (NOTE: Producers shared similar concerns about a "chavista" influence in rural areas, and the growth of marihuana plantations by peasants from some of the same social groups demanding land. END NOTE.)

¶10. (C) Vera-Berajano complained about inheriting incompetent people in his ministry. He said that many, including Vice

President Franco, had tried to pressure him into hiring Liberal Party officials, but he had made his hiring decisions based on merit (in fact, the Liberal Vera-Berajano hired more Colorados than persons from any other party). Vera-Berajano said he and others in Lugo's cabinet want to redefine the rules of the game; others, including Liberals, want to play by the old rules. He called Lugo a "good man" but said "I am getting tired of fighting this fight." (NOTE: Vera-Berajano's original designation was criticized in the press, which questioned his qualifications and experience to lead the ministry. END NOTE.)

¶11. (SBU) Minister Vera-Berajano's priorities are to increase the productivity and market access of small producers. He argued that small producers cannot succeed with traditionally rustic farming techniques, poor genetic material, and limited access to markets and capital. He emphasized the need to invest in extension research to adapt new higher yielding species.

¶12. (SBU) With regard to alternative development and crop substitution, Vera-Berajano indicated that he would consider "green helmets" rangers from the military to boost security in areas where marijuana is grown and the state presence is limited. He highlighted the potential of the natural sweetener stevia as a labor intensive crop to substitute marijuana production. (NOTE: The Director of the Anti-Narcotics Secretariat (SENAD) also expressed interest in the "green helmets" to guarantee security in areas where alternative development programs could be implemented. END NOTE.)

COMMENT

¶13. (C) The agriculture sector's 2009 outlook is less than positive. The private sector consensus is that President Lugo needs to clearly address security and private property issues. The shared concern is that Lugo's relative silence -- leaving most public statements to his ministers -- implicitly fosters land invasions, which hurt agricultural production. The implied concern is that problems at home are exacerbated by deteriorating international market conditions, making it more difficult to manage the current situation, and increasing the probabilities of a serious downturn. Historically the agriculture sector has been the engine of Paraguay's growth, but increasing risks and uncertainty could drag it down, and Paraguay's growth rates along with it. Lugo's poverty eradication and job creation priorities need a healthy, growing productive sector to attract investment. However, with rising levels of uncertainty and risk in the agricultural sector -- the most important sector of Paraguay's economy -- this will become increasingly unlikely. END COMMENT.

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